

# Balancing risk with innovation

Volatility brings risk. It is also creates opportunities writes **JACQUELINE ROWARTH**, a Professor of Agribusiness, The University of Waikato

Analysts in the global management consultancy firm McKinsey & Co have shown that in the financial arena, volatility during 2000-2013 was 60 per cent higher than during 1965-1980.

Mergers and acquisitions have escalated, and businesses have faced more emerging-market competitors.

Despite this, average returns on invested capital have increased — the emergence of winners earning outsize returns has boosted average performance.

In farming, where we are struggling not only with competition in the global market, but also with an ever-increasing regulatory burden, seeing volatility as an opportunity takes considerable energy, and the 'Farmers should...' message from people who are not farmers is becoming tiring.

So is the message that farmers are (or should become) resilient and so will (or possibly won't) survive.

It's complicated.

Speaking at the East Coast Hill Country Conference in Hastings in October this year, Dr Janet Reid from Massey University explained that the adaptive capacity of the person is the most important factor in creating resilience.

She echoed the words from her colleague Professor Nicola Shadbolt: resilience involves the ability to bounce back without breaking, and adaptive capacity to learn and change from a major disturbance. It requires holistic and critical thinking, foresight and capacity, the ability to explore possible futures, and to discover and apply new technologies.

Complicated, yet it is innate in some people — the people who can see the opportunity in not following the pack, or who can spot a trend. In fact, within their own business, they are the



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innovators, who are doing everything that management guru Gary Hamel suggests is required of an innovative company: challenging invisible orthodoxies, harnessing under-appreciated trends, leveraging competencies and assets, and addressing unarticulated needs.

Management Consultancy firm Accenture has explored the leadership role in resilient businesses and shown that in 'advanced resilience', senior management is fully engaged and plays an active role, integrating risk management and business continuity, innovating to execute

plans. In most New Zealand farm businesses the manager is the owner and so is 100 per cent engaged. And most New Zealand farmers are amongst the most rapid adopters and adapters of innovations and technological developments in the world. Research presented at the New Zealand Grassland Association (NZGA) conferences over the years, and available for download from the Association's website ([www.grassland.org.nz](http://www.grassland.org.nz)), has shown the rapid uptake of new cultivars. It has also shown why farmers might be wary of adopting 'the best thing since

sliced bread' before it has stood the test of time. The straphine of NZGA is 'fuelled by science; tempered by experience' for a reason. There is enough volatility and risk in farming without adopting half-researched ideas, or those that haven't been evaluated on farm or considered the impacts on the bottom line for the farm business.

Preparing for the future is a balance of art and science. It will take research that is appropriate for the geographical region and farm system under consideration. The Ministry for Business, Innovation and Employment has called for proposals for three regional research institutes to 'help grow innovation and competitiveness in our regions by making the most of local industry', technology, and economic development opportunities. Speaking at the East Coast Hill Country Conference, Science and Innovation Minister Steven Joyce indicated enthusiasm for and excitement about New Zealand's food prospects. "The opportunity for high-value foods in developing countries is unlimited", he said. And as star performers, agriculture pulls up the average - StatsNZ data shows annually that agricultural productivity drives the economy.

The Minister's vision is that we become the most prosperous small country in the world, connected and open to taking advantage of opportunities, continuing to develop innovation, and developing skills, particularly in risk taking. He also said we must be prepared to attract investment to the regions and welcome that investment from overseas.

The Minister's goal is that science and technology will enable opportunities to be achieved: farmers should be able to have their cake and eat it too...

Having it all might be just a dream, but the festive season is coming and... farmers should... be able to have some time off to raise a glass in recognition of their efforts, and those of their industry.

The toast is 'achieving ever-better food futures'.